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SUBJECT: IBERIA AIRLINES THREATENS ROUTE CANCELATIONS DUE
TO SUBSIDIES FOR LOW COST CARRIERS

1. Summary. Executives at Iberia, Spain's largest airline, recently threatened to abandon certain air routes if low cost air carriers (LCACs) continue to receive public subsidies. Iberia accused the GOS of ignoring the disproportionate subsidization of LCACs and for permitting a lack of fiscal transparency in the sector. Iberia's comments are the latest in a long series of disputes between larger (legacy) airlines and LCACs. Although Iberia has not rejected legal action, it is not currently considering it. End Summary.

2. Iberia Airlines President, Fernando Conde, announced on January 26 his company's intention to abandon regional air routes if public subsidization of LCACs continued. Conde criticized Spanish and EU air transit authorities for ignoring disproportionate subsidy distribution and poor fiscal transparency in the air transport sector. He claimed that usage fees paid by legacy airlines at international hubs are being funneled into smaller secondary airports to support the operation of LCACs. Conde specifically mentioned RyanAir and EasyJet, two popular LCACs who fly to nine and ten Spanish cities respectively. Conde stressed that the subsidization of LCACs by regional governments and airports is harming the competitiveness of the Spanish airline industry.

3. Iberia announced January 27 that flights to Galicia, Andalucia and Barcelona will be abandoned if disproportionate public subsidization continues. However, no time frame was given, leaving doubts as to whether the proposed cancellations were anything more than threats. When asked if Iberia would consider legal action, Conde replied that it remains an option but is not being considered at present.

4. Econoff met with Iberia International Relations Director Elvira Herrero Mateo on February 9 to discuss Iberia's position. Herrero essentially reiterated Conde's remarks but offered no specifics regarding anticipated route cancellations. She reaffirmed that legal action is not currently under consideration, but also cited the Brussels Zaventem v. Charleroi case, in which the EU Commission ordered RyanAir to repay millions of euros that it received in public subsidies.

5. Herrero opined that although the proliferation of LCACs is expected to continue, there will always be high demand for the convenience and quality of legacy carriers. She added that although Iberia cannot compete numerically with the subsidized discount fares offered by LCACs, Iberia offers a superior price/quality ratio. Herrero also noted that legacy carriers, unlike LCACs, have the resources to service smaller and less profitable localities.

6. Comment. It is likely that the recent comments from Iberia were intended primarily to draw the attention of the Spanish government and aviation administration (AENA) to the unfairness of public subsidies for LCACs. Iberia has made no indication that it will follow through on its threats to cancel routes or lodge official complaints with Spanish competition authorities. Instead, more pragmatic measures to combat the impact of LCACs, such as premium flight specials and plans for the creation of Iberia's own low cost division are currently underway.

MANZANARES